

July 17, 2006

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Mr. W. Douglas Buttrey
Chairman
Surface Transportation Board
810, 1925 K Street N.W.
Washington, DC 20423 - 0001

Dear Mr. Buttrey:

Thank you for your letter of June 28, 2006, regarding Canadian Pacific Railway's (CPR) preparedness for the "fall peak" shipping season.

The attached document outlines the actions we have taken and are taking in the short and medium terms regarding the fall peak. This will require certainty in terms of our ability to achieve the necessary return on investment and cash flows. It will also require a regulatory environment that encourages private industry to make the necessary investments required to have a vibrant and responsive rail system.

We continue to see a surge in traffic growth across many product lines. Our commitment to the strength of these markets was demonstrated in 2005 with the completion of a CDN \$160-million expansion program to increase capacity by up to 12% in key areas of our network. In 2006 we will again spend in excess of CDN \$ 810 million, that includes a number of specific projects to increase capacity and improve the transportation fluidity to the Pacific Northwest ports for the movement of US Grain products overseas.

The addition of infrastructure is an effective means of increasing capacity and we believe will allow us to handle current demand for this fall. However, the extremely high cost limits infrastructure expansion to areas that have stable and sustained underlying growth. It also requires that we relentlessly pursue non-infrastructure means to fully utilize existing capacity before expanding. A collaborative effort is required between railroads, shippers, receivers, ports, and governments to ensure our collective success.

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As an example, the continent's railroads operate virtually every hour and every day of the year. A substantial number of our partners and industries do not. As participants in an integrated supply chain, all players must respect the necessity of dealing with time, distance traveled and delivery expectations. Transportation is a 7/24 business that cannot make its maximum economic contribution if constrained by supply chain partners who are working a five-day schedule. The congestion and capacity issues associated with volume crests are significant. A coordinated national strategy to utilize existing infrastructure can defer or reduce billions of expansion dollars required for our highways, ports and railways.

For those situations where expansion is the best answer, a substantial and ongoing investment program requires consistently earning our cost of capital. With capital investment exceeding US \$2 Billion over the past five years impacting cash flows, this has been a significant challenge for CPR. Generating adequate returns requires continued shipper acknowledgement of the need for higher rates as well as ongoing regulatory stability. Our ability to secure capital depends on it. Competition and market forces are still the best choice in determining rail rates and service standards in most cases.

Legislative and regulatory certainty is critical in terms of decisions regarding significant investment in fixed assets. Any suggestion of reregulation or return to heavy-handed government regulation of railroads would cause immense harm by restricting CPR's ability to make the investments needed in infrastructure that will benefit North American business and communities. In fact, reregulation could lead to disinvestment in our rail network, an outcome completely at odds with the needs of the economy. I would encourage you and members of the Surface Transportation Board not to initiate anything that would detract from the impressive efficiency and service gains our industry has made, and continues to make.

The 'fall peak' is not a special season for us. We value our customers' business and the relationships we hold with them all year round. Our primary interest remains in seeing them grow and prosper and ensuring that rail is an integral part of their business success.

I would be pleased to meet with you to discuss our efforts to meet customers needs and to address any concern you or members of your team may have in regards to this matter.

Sincerely,



F.J. Green
President & Chief Executive Officer

Enclosures

cc: The Honorable Francis Mulvey, Vice-Chairman, STB
Edward R. Hamberger, AAR

Appendix

2006 FALL PEAK

1. DEMAND PLANNING

CPR works diligently on an ongoing basis, to deliver consistent and efficient products to the market place. Demand planning, a core business process at CPR, has played a major role in our success in this area and is the foundation for effective “peak planning”.

The key components of CPR’s demand planning process include:

- overall accountability centralized in a comprehensive cross-functional team that on a regular basis directly links demand information to our supply side planning to ensure alignment of all elements of the capacity equation, viz. cars, locomotives, crews, interline connections, terminals and yards.
- annual demand outlooks designed to initiate base service plans and resource requirements for the upcoming calendar year.
- monthly updates by specific commodity and business sectors which allows for proactive adjustments to the base plan as required.

A critical aspect of CPR’s demand planning is direct customer input. Given the healthy freight market we are witnessing across North America, customer dialogue around forecasts remains an extremely high priority. As such,

- CPR meets regularly with all key customers to ascertain their views on demand, volume flows and market risks.
- CPR has undertaken independent and internal reviews to better understand key demand drivers and validate demand, both short and long term.

As part of our ongoing demand planning, specific assessments are undertaken on a market segment basis to remain current with demand trends and developments. Grain is a good example and following is a snapshot of our approach in this area and is how we do business all the time:

- extensively analyze industry data to develop grain shipment demand forecasts. (USDA Sods)
- consult with CPR’s Shipper Advisory Boards (approx. 10 elevator managers from the west and east territories of CPR's Northern Plains network) to review crop assumptions and forecasts, seeding intentions, market developments and weather related issues.
- validate outlooks with the merchandising side of the grain companies.
- continuously monitor market, production and weather impacts from USSDA ND & MN Ag Stats along with consultations with exporters, commercial grain companies, and elevator managers.
- solicit shipper feedback on the suitability of our product offerings in relation to market developments.

2. PREPARING FOR/MEETING "THE PEAK" DEMAND

In looking forward to this fall's demand, all signs suggest that the fundamental strength in North American freight markets will continue.

We plan to proceed as follows as per our normal and continuous business process:

- match current demand outlooks against available resources.
- develop a deliverable service plan or offering reflecting available resources and realistic performance targets.
- leverage our Integrated Operating Plan (IOP) to most effectively serve known demand. The IOP defines specific operational responsibilities and establishes common goals for delivering consistent and reliable train service. It balances train flows across specific corridors optimizing crew, locomotive and yard capacity. CPR is able to keep traffic patterns fluid and maximize the operating capacity of our system.
- continuously communicate and signal the marketplace with respect to our capabilities.

As in most years, this Fall's Peak will be driven by seasonal demand for the movement of grain, fertilizer and intermodal traffic. As grain represents a large part of our US presence, we will first feature the specific actions we are taking in this market.

Grain program enhancements:

- an updated suite of products and services that match CPR resources to market demand.
- joint service plans with lease line partners to ensure smooth operational interfaces at the movement origination.
- implementation of specific trainload services to maximize PNW export grain capabilities.
- meetings with major interline partners to institute operating plans to maximize interchange fluidity and over-the-road performance for joint-line traffic.
- proactively manage our grain supply chain through our Grain Shipment Management Team.
- additionally, we are growing our "dedicated power shuttle" product based on the success of the 2005 program. Our customers have indicated their support for this initiative.

Although intermodal has a somewhat smaller presence in our U.S. operations, this segment does exhibit significant seasonal variances with peaks ranging 10% to 20% higher than non-peak months. To enhance system fluidity CPR has:

- continues to use an import allocation system at the Port of Vancouver for all intermodal, including international traffic to Chicago and the U.S. Mid west. This system also provides shippers with clarity on supply.
- Continues to use a process to minimize the extent to which rail capacity is consumed by the repositioning of empty containers.

3. PERFORMANCE GOALS

CPR has a variety of performance goals designed to improve system fluidity and hence peak throughput capabilities. Key goals impacting system fluidity and our YTD progress on improvement is as follows:

- a. train speed is up by 22 % vs. 2005
- b. terminal dwell had decreased by 29% vs. 2005
- c. car miles per day has increased by 11% vs. 2005

4. CPR'S PLANS FOR ACHIEVING PERFORMANCE GOALS

To support our fall performance goals and expected growth, CPR has taken several actions. These include the following:

Cars

- Purchased 500 new hi cube hi cap covered hoppers for grain service.
- Upgraded 500 covered hoppers to 286 capacity within last 12 months.
- Life extension program for 300 covered hoppers - extends life of car, retains it in the fleet, and reduces incidence of bad order equipment.
- Increased proportion of double stack equipment in Intermodal fleet from conventional single stack cars.
- Life extension program for 400 concentrate cars.

Locomotives

- Continuous review of our locomotive fleet requirements including \$ 160 Million CDN in 2006 for locomotive maintenance, overhaul and acquisitions to ensure we have appropriate hauling capacity.

Crews

- in 2005 we added 379 train crew employees on our network including 117 US based employees. This year, it is anticipated that we will add close to 300 incremental train crew employees to our system, and of this, over 129 will be U.S. based.

Yards & Terminals

- completed field implementation in 2005 of our yard management system (TYES) to facilitate processing improvements and enable greater yard fluidity. We are now able to leverage the functionality that TYES provides.
- In 2005 we created a new functional Yard Operations Performance (YOP) team to develop and support improved yard operations performance with a focus on decreased shipment dwell time in yards and faster shipment transit time. The YOP team has worked with local operations management to establish processes controls and has contributed to the reduction in terminal dwell across the system.

Interline Processes

- continue working with partners to maximize capacity over gateways and interchanges, particularly with UP at Eastport/Kingsgate where the infrastructure in our Pacific Canam corridor is now capable of handling up to 60 trains per week. Our co-production initiative with Norfolk Southern between Chicago and Detroit is providing more reliable, faster service in this corridor.

Winter Planning

- CPR's winter planning program for 2006-2007 is complete; this will permit CPR to provide the best service possible should winter arrive early.

5. CAPACITY

- CPR has completed our major capacity expansion on our Western corridor involving 25 sub projects with a total 2005 cost of \$160 Million. It has improved capacity by 12% and will enhance our route structure from Canada's Pacific coast to the United States.
- in addition to this major initiative, CPR is also employing "rifle shot" tactics to improve throughput and fluidity on several route segments which support US grain exports and cross-border trade routes including three sidings between Dunmore, Alberta and Crowsnest, British Columbia increasing capacity by 20%. capacity is also a function of accurate shipper forecasting, coordination, demand management and leveraging 24x7 round-the-clock operations. CPR will continue to aggressively pursue these opportunities as we work with our customers in planning for and operationalizing the fall peak.

6. COMMUNICATIONS WITH CUSTOMERS

CPR engages in communication with customers at many levels. Some examples of this ongoing process include:

- key customer meetings and participation in numerous customer and shipper/commodity conferences to review and validate demand.
- on-going discussions with grain customers to review new products and services and to validate supply and demand assumptions.
- meeting on July 6, 2006 with the Governor of North Dakota to outline service plans.
- September conference with the Short-line industry to engage this partner group (this is an annual event).
- AAR shipper forum in September 2006 to summarize fall service plans.